

made to certain close relatives, such as children and parents. This exemption can be used entirely in one year or stretched over the lifetime of the donor. In years when individual gifts exceed \$12,000, the excess can be applied against the \$100,000 exemption until it is used up. This exemption can be claimed by a donor only if the donee is a direct descendant, ancestor, adopted child, or stepchild.

**Other exemptions.** North Carolina does not impose a gift tax on gifts made to some entities:

- a spouse;
- charitable, educational, or religious organizations located within North Carolina, or located in another state if that state does not tax its residents for gifts made to such organizations located in North Carolina; or
- the state of North Carolina or to counties or municipalities within North Carolina.

North Carolina gift tax also does not apply to certain other payments:

- tuition payments made on behalf of an individual to an educational institution;
- medical payments made on behalf of an individual to a provider of medical care;
- property transferred to a spouse that qualifies under federal law as terminal interest property; and
- Qualified Tuition Programs.

**Tax rates.** The N.C. gift tax rates are listed in Table 4. Rates start at zero with the \$100,000 exemption applied as an equivalent credit. Different tax rates apply to gifts made to Class A, B, or C beneficiaries. Class A beneficiaries are parents, children, and grandchildren, whereas Classes B and C include other relatives and nonfamily members. Gifts sheltered by the \$12,000 annual exclusion or the \$100,000

lifetime exemption are not taxable gifts. (Refer to [www.dornrc.com/taxes](http://www.dornrc.com/taxes) for the latest information.)

You must prepare a state gift tax return for any calendar year in which you made gifts of more than \$12,000 to an individual donee. This return is to be filed and tax paid, if due, by April 15 following the calendar year in which the gift was made.

## North Carolina Estate Tax

North Carolina imposes an estate tax on the estate of a decedent when a federal estate tax is imposed on the estate and the decedent was either (1) a resident of North Carolina or (2) a nonresident who owned real property in North Carolina or personal property located in North Carolina for tax purposes.

Prior to the enactment of the 2001 EGTRRA, the federal tax rules allowed a *state death-tax credit* against the amount of federal estate tax owed on estates. The credit amount was determined under a federal formula, and the amount of federal tax was reduced by the credit amount. The credit effectively gave states a part of the estate tax revenue that was otherwise payable to the federal government. Following EGTRRA, this state death tax credit was to be phased out over three years beginning in 2002. The federal government would no longer share its estate tax revenue with the states. North Carolina, however, like many other states, did not adopt the federal phase-out or termination of the credit. Therefore, North Carolina estate tax is equal to the pre-enactment state death-tax credit level. The result is that estates have to pay the full amount of the federal tax as well as the full amount of the former state death-tax credit.

North Carolina estate tax is payable from the estate's assets. A person who receives property from an estate is liable for the amount of estate tax attributable to that property. The personal representative of an estate is liable for any estate

**Table 4. North Carolina Gift Tax Rates for Class A Beneficiaries\***

| If the taxable gift is:   | The tax rate is:                              |
|---|---|
| Not over \$10,000   | 1%  |
| Over \$10,000 but not over \$25,000   | \$100 plus 2% of amount over \$10,000         |
| Over \$25,000 but not over \$50,000   | \$400 plus 3% of amount over \$25,000         |
| Over \$50,000 but not over \$100,000  | \$1,150 plus 4% of amount over \$50,000       |
| Over \$100,000 but not over \$200,000   | \$3,150 plus 5% of amount over \$100,000      |
| Over \$200,000 but not over \$500,000   | \$8,150 plus 6% of amount over \$200,000      |
| Over \$500,000 but not over \$1,000,000   | \$26,150 plus 7% of amount over \$500,000     |
| Over \$1,000,000 but not over \$1,500,000   | \$61,150 plus 8% of amount over \$1,000,000   |
| Over \$1,500,000 but not over \$2,000,000   | \$101,150 plus 9% of amount over \$1,500,000  |
| Over \$2,000,000 but not over \$2,500,000   | \$146,150 plus 10% of amount over \$2,000,000 |
| Over \$2,500,000 but not over \$3,000,000   | \$196,150 plus 11% of amount over \$2,500,000 |
| Over \$3,000,000  | \$251,150 plus 12% of amount over \$3,000,000 |
| *Class A beneficiaries are the donor's parents, children or grandchildren, adopted children, and in certain cases, sons- and daughters-in-law.                      |   |
| Gifts made to Class B beneficiaries (brothers, sisters, descendants of brothers and sisters, or uncle or aunts by blood) are taxed at rates ranging from 4% to 16%. |   |
| Gifts made to Class C beneficiaries (all others) are taxed at rates ranging from 8% to 17%.   |   |